Property Tax Growth Limits. The Mayor and Council capped annual increases for the City's share of the property taxes at a maximum of eight percent. About four percent of this increase will be used to support debt for pensions, internal service funds, and libraries.

Cutting Spending. Even with this tax increase, bridging the gap between revenue and expenses, along with paying off the City's debt, will require substantial cuts to every City department. The Five-Year Financial Direction provides direction on how the cuts will fall across departments within established priorities. City leaders approved a resolution setting a ceiling for annual employee wage increases at two percent for future labor contracts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2002, amounts to \$1,649,579 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 5% (a 4.5% increase for governmental activities and a 5.7% increase for business-type activities).

City of Minneapolis Capital Assets (net of depreciation)

	Governmental Activities				Business-type Activities				Total				
	2002		2001		2002		2001		2002		2001		Variance (%)
Land and easements	\$	111,455	\$	112,259	\$	131,854	\$	132,084	\$	243,309	\$	244,342	(0.42)
Infrastructure		143,918		152,789		277,783		262,093		421,701		414,882	1.64
Construction in progress		62,138		186,392		95,944		88,418		158,082		274,811	(42.48)
Structures and improvements		429,986		258,488		339,638		317,059		769,624		575,547	33.72
Equipment		46,212		49,990		10,651		10,139		56,863		60,129	(5.43)
Total	\$	793,708	\$	759,918	\$	855,871	\$	809,793	\$	1,649,579	\$	1,569,711	5.09

Major capital asset transactions/events during the current fiscal year included:

- In restating balances as of January 1, 2002, the City capitalized infrastructure assets as required by GASB Statement No.34. These assets included items such as bridges, streets, street lighting and traffic signals.
- During 2002, the Convention Center expansion was reclassified from construction in progress to structure and improvements. Between previously recorded construction in progress and current year spending on the expansion, the expansion was capitalized in the amount of \$185,915.
- In 2002, the Water Department started an Ultrafiltration Program with projected costs of approximately \$140,460 (expected completion date of 2007). This new system of water filtration will give the City's water system necessary plant improvements.

• The Parking Fund added a new ramp in 2002, the Downtown East ramp, near the Metrodome. Other parking facilities related to the Walker Art Center and the Guthrie developments are in planning stages and will be entering design stages in the near future.

Other capital asset highlights for the City are as follows:

- The New Library Project started in 2002 with a budget of about \$125,826. The Library project is currently in the design stage and will be located on the same block as the old library. Construction and the foundation work of the new library will start during the summer of 2003. The New Library should be completed during the later part of 2005.
- During 1998, the City embarked on a \$72,350 nine-year flood control program. This
 program targets specific areas in the City and creates holding ponds and additional storm
 drains that are designed to mitigate the effects of flash floods. The flood program has
 been modified and will be extended a few more years with an increase in project costs of
 about \$20,250.
- In 1998 the City began the Supervisor Control and Data Acquisition (SCADA) program for the Water Department. The SCADA program automates the water control system from one point so that all gates, pumps, monitors and controls will be in one controlled area. The SCADA project is expected to exceed initial cost estimates by \$5,800 due to additional security, monitoring, and automation measures. The total project costs will be \$18,800 with completion in 2005.
- The Heritage Park (Near North) project has a budget of \$76,605, with costs to date equaling \$22,398. This project has an estimated completion date of 2007. The Heritage Park project is for affordable housing, environmental recommitment, and neighborhood-scaled development.

The City's infrastructure assets are recorded at historical or estimated historical costs in the government-wide financial statements as required by GASB Statement No. 34.

Additional information on the City's capital assets can be found in Note 5 on pages 61-62 of this report.

Long-term debt. As of December 31, 2002, the City had total long-term bonds outstanding of \$1,297,833 compared to \$1,380,663 in the prior year. Of this amount, \$829,022 related to governmental activities and \$468,811 related to business activities. In addition to bonded debt, the City had \$56,310 of long-term revenue notes outstanding at December 31, 2002, of which \$49,091 related to governmental activities and \$7,221 related to business activities.

Included below in both Additions and Retirements for Self Supporting GO Bonds are \$127,800 of new bonds issued to convert existing variable rate bonds for the Minneapolis Convention Center to fixed rate bonds. The City had \$146,640 of bonds in variable rate mode at year end. The \$79,335 net decrease in total bonded debt outstanding was primarily attributed to the receipt of \$81,527 in State grant funds for the Minneapolis Convention Center which allowed the City to retire approximately \$80,000 of it's Sales Tax Refunding Bonds, Series 1992.

	Balance			Balance	Due Within	
Summary of Outstanding Bonded Indebtedness	1/1/2002	Additions	Retirements	12/31/2002	One Year	
General Obligation (GO) Bonds:						
Property Tax Supported GO Bonds	\$ 68,705	\$ 66,845	\$ 32,305	\$ 103,245	\$ 25,610	
Self Supporting GO Bonds	363,550	150,280	230,295	283,535	9,305	
Special Assessment GO Bonds	40,545	6,390	4,616	42,319	4,695	
Tax Increment GO Bonds	233,815	-	17,190	216,625	11,370	
Internal Service Fund Related GO Bonds	83,255	12,525	3,125	92,655	5,130	
Enterprise Fund Related GO Bonds	384,302	47,950	55,326	376,926	28,512	
Total General Obligation Bonds	1,174,172	283,990	342,857	1,115,305	84,622	
Revenue Bonds:						
Economic Development Revenue Bonds	103,726	-	13,083	90,643	13,541	
Other Community Development Related Bonds	102,765	2,750	13,630	91,885	3,545	
Total Outstanding Bonds	\$ 1,380,663	\$ 286,740	\$ 369,570	\$ 1,297,833	\$ 101,708	

The City maintained an "AAA" rating from Standard & Poor's and Fitch and an "Aa1" rating from Moody's for its general obligation debt throughout 2002.

Additional information on the City's long-term debt can be found in Note 6 on pages 62-67 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following key indicators provide highlights on the City's economic outlook and future budget impact.

Employment

The unemployment rate for the City of Minneapolis at the end of 2002, as released by the Minnesota Department of Economic Security, is 4.0%. This economic indicator is on par with comparisons including the State of Minnesota and the national unemployment rate (5.7%). Although Minnesota's unemployment averages remain lower than national averages, the Minnesota Department of Finance indicates Minnesota appears to be losing jobs faster than the rest of the nation.